The Speculator

By David Haselhurst
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PORTFOLIO POINT: A new year bonus to come for Coalworks shareholders … and a bullish report for Queensland Mining.

Shares in our NSW mine developer Coalworks Ltd (CWK) touched a new high today of 57.5¢ as buyers reacted to the upbeat report chairman Wayne Mitchell delivered to the company's annual meeting late last week.

The company, with three coal projects underway in NSW, revealed it would reward shareholders in the new year through the spin-off of its emerging Indonesian coal mining activities.

Coalworks will make an in specie distribution of about 50% of its shareholding in its wholly owned subsidiary Orpheus Energy ahead of a planned listing on the ASX, expected in March, 2011.

Orpheus is a coal company focused on coal production joint ventures in Indonesia. Ahead of the public float, an initial capital raising of $3 million is being organised to be followed by a public offer to raise up to another $22 million. Coalworks will remain a "significant" shareholder in the spin-off.

Mitchell told the meeting the board had agreed to offer all existing shareholders potentially a bonus issue, with the ratio still to be finalised.

"This would be the company's first dividend to shareholders," he added, with all Coalworks shareholders to be also offered a priority share allocation in the planned float.

Orpheus has signed a strategic alliance with an Indonesian company, PT Mega Coal International, with a heads-of-agreement drawn up to develop a thermal and coking coal joint venture (JV) in Kalimantan. The JV will initially produce at a rate of 500,000 tonnes a year beginning in the first half of calendar 2011. The project is close to a port site where coal can be barged for export.

Additional Indonesian coal projects were already being advanced under the strategic alliance, he reported, and predicted further new-term production projects and infrastructure opportunities will soon be announced.

Minarco-Mine Consult (part of the Runge Group) has been appointed to provide independent geological and engineering verification for what has been labelled the B26 project in Kalimantan.

Coalworks first listed on the ASX in June 2008 and now has 103.8 million shares on issue, about 15% held by board and management and 25% by institutions. Market capitalisation stands around $58 million.

Since listing it has advanced three projects in NSW:

Vickery South. As reported in this column on **November 10**, a bankable feasibility study (BFS) is now underway to develop an open-cut, multiple seam coal deposit on this Gunnedah basin project north-west of Newcastle with an 18-year mine life in a JV with Japan's Itochu Corporation.

Ferndale. The Ferndale project (EL7430), in the Hunter Valley,125 kilometres from Newcastle, with an exploration target of 350–550 tonnes of export quality semi-soft coking coal and thermal coal, where joint venture partner negotiations are in progress to finance a bankable feasibility study for completion within 2011.

Oaklands. This project in southern NSW has a JORC-compliant resource of 822 million tonnes of coal. Options under study include export sales through the Port of Geelong, an on-site power station and a coal-to-liquids plant producing 21,000 barrels a day of petrol, equivalent to 6% of Australia's daily consumption.

In an investor presentation this month, the company claimed its resources were significantly undervalued, compared to the market values of 18 other listed coal peers.

Somebody must be listening, for the shares touched a new high this week, up from a year's low of 26¢. We bought at 27.5¢ on March 3.

-The Speculator portfolio, as at November 23, 2010

Company	ASX	No of shares	Bought	Purchase price	Current price	Current value
Cortona Resources options ex. 20¢ by 31/01/2012	CRCO	25,000	31/12/09	$0.053 av	$0.078	$1,950
A1 Minerals	AAM	40,000	31/12/09*	$0.24 av	$0.110	$4,400
Image Resources	IMA	4,000	31/12/09*	$0.830	$0.425	$1,700
Golden Gate Petroleum op ex. 8¢ by 31/8/2012	GGPO	6,665	31/12/09*	$0.017	$0.004	$27
Viralytics	VLA	50,000	31/12/09*	$0.037	$0.036	$1,800
Trafford Resources	TRF	20,000	31/12/09*	$0.760	$0.450	$9,000
OBJ Limited	OBJ	100,000	31/12/09*	$0.029	$0.025	$2,500
OBJ options ex. 1¢ by 31/12/2010	OBJO	11,111	21/01/10	Free	$0.015	$167
Beacon Minerals	BCN	300,000	13/01/10	0.0213av	$0.018	$5,400
Quickstep Holdings	QHL	20,000	14/01/10	$0.520	$0.415	$8,300
Golden Gate Petroleum	GGP	120,550	25/01/10	$0.038 av	$0.015	$1,808
Robust Resources	ROL	3,000	9/02/10	$1.15 av	$1.925	$5,775
Scotgold Resources	SGZ	25,000	16/02/10	$0.091av	$0.070	$1,750
Coalworks	CWK	10,000	9/03/10	$0.275	$0.570	$5,700
Queensland Mining Corp	QMN	50,000	23/03/10	$0.125	$0.088	$4,400
Austex Oil	AOK	10,000	1/06/10	$0.120	$0.130	$1,300
GoConnect Ltd	GCN	100,000	13/07/10	$0.028	$0.040	$4,000
Imperial Corporation	IMP	20,000	10/08/10	$0.086	$0.087	$1,740
Scotgold Resources Options ex 30/4/12 @ 8¢	SGZO	2,500		$0.000	$0.018	$45
x						
Total value of portfolio						$61,762
Owe the bank						-$25,199
Total						$36,563
x						
Portfolio change since January 4, 2010 (started with $40,000, now raised to $50,000)						-26.87%
All Ordinaries change since January 4, 2010 (then 4889.8)						-4.35%
x						

* *Shares held from last year. They are carried at their December 31, 2009, closing price.*

A boost for Queensland Mining Corp

For a potential copper miner, Queensland Mining Corporation (QMN) has been a disappointment for many investors this year with the shares sliding from a 12-month high of 33.5¢ to a recent low of 7¢.

The Speculator, I'm sorry to say, bought in at 12.5¢ on March 23 in expectations of a recovery. Today they traded at 8.8¢.

But out of Western Australia this week arrives a report from Perth stockbroker CK Locke & Partners that suggests the company's shares are worth about three times their current market value.

As readers may recall, Queensland Mining has several advanced copper projects in the Cloncurry region of the Mt Isa inlier of north-west Queensland. Its flagship project is the recently acquired White Range project, comprising a number of deposits acquired from Matrix Metals Ltd (liquidator appointed) in July, 2010.

Broking analysts Angelo Tinelli and Tommy Harstrom point out: "A bankable feasibility study was completed by Matrix in 2005 for a project development producing 15,000 tonnes a year of cathode copper from the treatment of oxide ores. At that time the copper price was $US1.50 a pound, compared with the current spot market around $US3.80."

So it's little wonder that Queensland Mining as begun a review of the then favourable feasibility study with a view to fast-track the development of the project in what is still Australia's premier copper producing province.

White Range has a JORC-classified resource of 34.37 million tonnes grading 0.72% copper, 0.033% cobalt and 0.18 grams per tonne of gold (at a 0.2 grams per tonne cut-off), for 247,000 tonnes of contained copper, 24 million pounds of cobalt and 202,000 ounces of gold.

The analysts conclude: “Our fundamental; valuation suggests a price target for Queensland Mining of 28¢ a share (of which 25¢ represents the valuation of White Range).”

David Haselhurst writes a monthly column for Money *magazine. Please note that he is not able to provide personal replies to emails.*